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Briefly Noted: Goings on in Reserving and Modeling for A&H Waiver of Premiums

By Xianmei Tang, Anthony Muturi, Shanpi Yu and Isaac Larbi

Waiver of premium is a common supplemental benefit to the main contract of long duration accident and health (A&H) insurance products such as Long-Term Care and Individual Disability Income, and valuation actuaries certainly haven't ignored the reserves for it. But actuaries have rarely bragged about the artistry in the actuarial work behind those numbers. The reasons appear to be the popular business words—gray areas, immateriality, lack of resources and so on—which indicate a wide diversity of practice.

So, uniformity is still out of reach on this matter and actuaries have been comfortable with this. For the sake of simply being "right," however, individual practitioners should at least nail down exactly what the laws say and what actuarial models should do before claiming reasonableness of outputs that are based on individual judgment. The industry collectively should demystify how results can be both different and correct. How well has that been done?

There didn't seem to be a comprehensive deep dive conveniently available to the public, at least not to the authors' knowledge. We think such work was overdue, particularly when modern day valuation actuaries are facing unprecedented challenges and scrutiny: tightened controls over assumption development and model risk, escalated activity-driven financial measures reducing dependency on accounting rules, expanded first-principle approaches for actuarial models, and so forth. The authors' recent efforts, digging up actual experience, raking up dusty actuarial literature, and even seeking inspiration from heaps of old books (Confucius for actuaries, really?), has produced a white paper published in the *2017.2* volume of the SOA Education and Research Section's ARCH: *"Valuation for Waiver of Premium Benefit in Long Duration A&H Insurance Products: A review of regulatory requirements and demonstrations of actuarial modeling approaches."*

Below is the abstract. Interested readers can download the full-length article from the SOA website *https://www.soa.org/research/arch/2017/arch-2017-iss2-tang-muturi-yu-larbi.pdf*.

"Reserving for waiver of premium benefits in long duration accident and health insurance products has traditionally been an overlooked, if not neglected, issue in life insurance valuation due to gray areas of the law, immateriality of the affected business, and lack of actuarial resources. The existing regulations require appropriate set-up of active life reserves and disabled life reserves for both waiver of premium benefits and base contract benefits with careful considerations for how assumptions are developed and how cash flows are projected. The underlying actuarial modeling approaches may vary in two dimensions where the in-force could be total lives or healthy lives only and the benefit amounts could be incurred claims or claim payments. The aggregate reserves are mathematically identical for all the approaches to the extent that assumptions are consistent. However, the reserve balances will differentiate when experiences deviate from assumptions and the corresponding financial impacts could be significant and tangible as reflected by experience gains or losses. These conclusions strongly suggest that the choice of actuarial modeling should be a business decision with appropriate management accountabilities." ■

Xianmei Tang, FSA, MAAA, PRM, LTCP, is a vice president & actuary at Prudential Financial in Newark, N.J. He can be reached at *xianmei.tang@prudential.com.*

Anthony Muturi, FSA, MAAA, is a director & actuary at Prudential Financial in Newark, N.J. He can be reached at *anthony.muturi@prudential.com.*

Shanpi Yu, FSA, MAAA, is a director & actuary at Prudential Financial in Newark, N.J. She can be reached at *shanpi.yu@prudential.com*.

Isaac Larbi, ASA, MAAA, is an associate actuary at Prudential Financial in Newark, N.J. He can be reached at *isaac.larbi@prudential.com*.